



JUN - 6 2001

Memorandum

Date

Michael Mangano

From

Michael F. Mangano
Acting Inspector General

Subject

Audit of the Louisiana Medicaid Disproportionate Share Hospital Program-Louisiana State University Medical Center-Shreveport, Louisiana (A-06-00-00058)

To

Thomas Scully
Administrator
Health Care Financing Administration

This memorandum is to alert you to the issuance on Friday, June 8, 2001, of our final report entitled, "Audit of the Louisiana Medicaid Disproportionate Share Hospital Program-Louisiana State University Medical Center-Shreveport, Louisiana" for the State fiscal year (SFY) ended June 30, 1998. A copy of the report is attached. The objectives of this audit were to (1) review Louisiana's disproportionate share hospital (DSH) program and verify that SFY 1998 payments were calculated in accordance with the approved State plan and (2) verify that payments to individual hospitals did not exceed the uncompensated care costs (UCC) as mandated by the Omnibus Budget Reconciliation Act of 1993.

Based on our review, we determined the DSH payments for SFY 1998 were calculated in accordance with the State plan. However, we found that DSH payments to individual hospitals exceeded uncompensated costs. The Louisiana State University Medical Center-Shreveport (LSUMCS) needs to submit a revised UCC schedule to the Department of Health and Hospitals (DHH) which incorporates our audit adjustments totaling \$4,467,789. These adjustments consisted of the following:

- Total interim DSH payments that exceeded the total claimed uncompensated costs for SFY 1998 by \$5,131,834.
- A net understatement of claimed UCC totaling \$664,045 identified for SFY 1998.

We recommended that LSUMCS:

- (1) Submit a corrected UCC schedule to DHH which incorporates our audit adjustments totaling \$4,467,789 to ensure that: (a) the appropriate financial adjustments are made to the DSH program; and (b) the exact amount of the Federal share of overpayments are calculated and returned to the Federal Government.

- (2) Review UCC adjustments in prior and subsequent years where errors were identified for SFY 1998. Make necessary adjustments to the cost reports and UCC schedules.
- (3) Implement controls to assure the UCC schedules are prepared accurately in the future.

The LSUMCS agreed with the findings and recommendations and agreed to implement the recommendations contained in our report. The LSUMCS also stated that a corrected UCC schedule was completed and submitted to the intermediary and DHH and the funds have been repaid. Although LSUMCS indicated that it made the proper financial adjustments, it still needs to implement the recommendation pertaining to implementing controls to assure that adjustments to the UCC schedules are prepared accurately in the future.

Any questions or comments on any aspect of this memorandum are welcome. Please address them to George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 786-7104 or Gordon L. Sato, Regional Inspector General for Audit Services, Region VI, (214) 767-8414.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF THE LOUISIANA MEDICAID
DISPROPORTIONATE SHARE
HOSPITAL PROGRAM-LOUISIANA
STATE UNIVERSITY MEDICAL
CENTER-SHREVEPORT,
LOUISIANA**



**JUNE 2001
A-06-00-00058**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 6B6
Dallas, TX 75242

Common Identification Number A-06-00-00058

Mr. Harold White
Vice Chancellor
LSU Medical Center-Shreveport
1501 Kings Highway
Shreveport, Louisiana 71103

Dear Mr. White:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled, "Audit of the Louisiana Medicaid Disproportionate Share Hospital Program-Louisiana State University Medical Center-Shreveport, Louisiana." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR part 5.)

To facilitate identification, please refer to Common Identification Number A-06-00-00058 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink, reading "Gordon L. Sato", is written above the typed name.

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosures

Page 2 - Mr. Harold White

Direct Reply to HHS Action Official:

James R. Farris, MD

Regional Administrator

Health Care Financing Administration

1301 Young Street, Room 714

Dallas, Texas 75202

EXECUTIVE SUMMARY

Background

Section 13621 of Omnibus Budget Reconciliation Act of 1993 (OBRA 1993) amended section 1923 of the Social Security Act (the Act) to limit disproportionate share hospital (DSH) payments. For State fiscal years (SFY) beginning between July 1, 1994 and January 1, 1995, payments to public hospitals were limited to 100 percent of uncompensated costs with a special provision that allowed payments of up to 200 percent of uncompensated costs to those public hospitals qualifying as “high DSH hospitals.” For SFYs beginning on or after January 1, 1995, payments to all hospitals were limited to 100 percent of uncompensated costs. Uncompensated costs were defined as costs of services to Medicaid patients, less the amount paid by the State under the non-DSH payment provisions; plus cost of uninsured patients, less any cash payments made by them.

Objectives

Our objectives were to (1) review Louisiana’s DSH program and verify that SFY 1998 payments were calculated in accordance with the approved State plan and (2) verify that payments to individual hospitals did not exceed the uncompensated care costs (UCC) as mandated by OBRA 1993.

Summary of Findings

For SFY 1998, the DSH payments were calculated in accordance with the State plan. However, we found that DSH payments to individual hospitals exceeded uncompensated costs. The Louisiana State University Medical Center-Shreveport (LSUMCS), therefore, needs to submit a revised UCC schedule to the Department of Health and Hospitals (DHH), which incorporates our audit adjustments totaling \$4,467,789. These adjustments consisted of the following:

- Total interim DSH payments that exceeded the total claimed uncompensated costs for SFY 1998 by \$5,131,834.
- A net understatement of claimed UCC totaling \$664,045 identified for SFY 1998.

Recommendations

We recommended that LSUMCS:

- (1) Submit a corrected UCC schedule to DHH which incorporates our audit adjustments totaling \$4,467,789 to ensure that: (a) the appropriate financial adjustments are made to the DSH program; and (b) the exact amount of the Federal share of overpayments are calculated and returned to the Federal Government. (See Appendix A.)
- (2) Review UCC adjustments in prior and subsequent years where errors were identified for SFY 1998. Make necessary adjustments to the cost reports and UCC schedules.

- (3) Implement controls to assure the UCC schedules are prepared accurately in the future.

The LSUMCS agreed with the recommendations. Their comments are included as Appendix B to this report.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
BACKGROUND	1
OBJECTIVE, SCOPE, AND METHODOLOGY	2
FINDINGS AND RECOMMENDATIONS	3
NET INTERIM DISPROPORTIONATE SHARE HOSPITAL PAYMENTS EXCEEDED UNCOMPENSATED CARE COSTS	4
UNDERSTATEMENT OF UNCOMPENSATED CARE COSTS	4
Private Insurance Cost Reduction Adjustment Understated by \$484,750	4
Use of Insurance Revenue to Compute Adjustment	5
Use of Overall Rate to Compute Inpatient Ancillary Cost	5
Calculation Errors	5
Physician Supplemental Salary Cost Reduction Adjustment Understated by \$363,377	5
Non-Physician Anesthetist Cost Reduction Adjustment Understated by \$353,349	6
Medicare Cost Reduction Adjustment Overstated by \$1,750,434	6
Provider-based Physician Cost Reduction Adjustment Overstated by \$115,087	6
RECOMMENDATIONS	7
AUDITEE'S COMMENTS AND OIG'S RESPONSE	7
Appendix A- SUMMARY OF OIG ADJUSTMENTS LSUMCS SFY 1998	
Appendix B- AUDITEE'S COMMENTS	

INTRODUCTION

BACKGROUND

In 1965, Medicaid was established as a jointly funded Federal and State program providing medical assistance to qualified low-income people. At the Federal level, the program is administered by the Health Care Financing Administration (HCFA), an agency within HHS. Within broad legal framework, each State designs and administers its own Medicaid program.

The DSH program originated with the Omnibus Budget Reconciliation Act of 1981, which required State Medicaid agencies to make additional payments to hospitals serving disproportionate numbers of low-income patients with special needs. States had considerable flexibility to define DSH hospitals under sections 1923(a) and (b) of the Act. States receive allocations of DSH funds as set forth by Federal statute. The DSH expenditures are matchable Medicaid expenses. Subject to State allocations, the Federal Government reimburses States for DSH expenditures based upon the applicable Medicaid matching percentage. States report Medicaid expenditures quarterly on HCFA Form 64, the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program.

Subsequent legislation established DSH parameters. Section 13621 of OBRA 1993 amended section 1923 of the Act to limit DSH payments. The specific language contained in the Act, as amended, is as follows:

“Section 1923...

(g) Limit on Amount of Payment to Hospital.--

(1) Amount of adjustment subject to uncompensated costs.--

(A) IN GENERAL.---A payment adjustment during a fiscal year shall not be considered to be consistent with... respect to a hospital if the payment adjustment exceeds the costs incurred during the year of furnishing hospital services (as determined by the Secretary and net of payments under this title, other than under this section, and by uninsured patients) by the hospital to individuals who either are eligible for medical assistance under the State plan or have no health insurance (or other source of third party coverage) for services provided during the year.”

For SFYs beginning between July 1, 1994 and January 1, 1995, payments to public hospitals were limited to 100 percent of UCC with a special provision that allowed payments of up to 200 percent of UCC to those public hospitals qualifying as “high DSH hospitals.” For SFYs beginning on or after January 1, 1995, payments to all hospitals were limited to 100 percent of UCC. According to the Louisiana State plan (State plan), UCC is defined as:

“...the cost of furnishing inpatient and outpatient hospital services net of Medicare costs, Medicaid payments (excluding disproportionate share payments), costs associated with patients who have insurance for services provided, private payor payments, and all other inpatient and outpatient payments received from patients.”

The LSUMCS staff prepares the UCC schedule which is submitted to DHH for payments under the DSH program. The UCC schedule presents total cost less insured (Medicare, Medicaid, and private) patient cost and patient payments to arrive at total uncompensated cost for DSH reimbursement. Total cost is determined as follows:

- (1) Hospital expenditures per the accounting system are scheduled on a Working Trial Balance (WTB) for corrections, adjustments, and reclassifications.
- (2) Results of the WTB are entered into the Medicare and Medicaid cost reports along with additional required adjustments (for example, deduction of cafeteria revenue/ addition of annual depreciation expense).
- (3) Cost report results provide total cost as shown on the UCC schedule.

Interim DSH payments to the hospital are based on prior year cost data and LSUMCS cost projections.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of the audit were to (1) review Louisiana's DSH program and verify that SFY 1998 payments were calculated in accordance with the approved State plan and (2) verify that payments to LSUMCS did not exceed UCC as mandated by OBRA 1993.

To accomplish the first objective, we reviewed interim DSH payment data and State of Louisiana Office of Legislative Auditor (LLA) working papers related to the DSH program and SFY 1998 interim payments totaling \$106,454,952. The LLA work met appropriate standards. Therefore, we were able to rely on their work.

To accomplish the second objective, support was obtained and evaluated for selected elements of claimed UCC. We reviewed: (1) judgmentally selected hospital expenditure items, (2) WTB adjustments, and (3) cost report adjustments in excess of \$100,000 for support and accuracy. We also reviewed the calculations of Medicare cost, Medicaid net revenue (excluding DSH payments), private insurance cost, and self-pay net revenue adjustments shown on the UCC schedule.

Documentation for hospital expenditures was in the form of detail transaction reports, payroll records, and invoices. Documentation for cost report and UCC adjustments was primarily in the form of reports and schedules prepared by LSUMCS.

The audit was performed in accordance with generally accepted government auditing standards. However, we did not review the overall internal control structure of the hospital accounting system. The internal control review was limited to interviewing responsible LSUMCS personnel to obtain an understanding of the process used to prepare the cost reports and the UCC schedule.

Correcting the understated costs will increase the amount of UCC eligible for reimbursement under the DSH program. However, as noted above, UCC must be net of Medicare, Medicaid, and privately insured patient cost as well as patient payments. Therefore, the ultimate impact on net UCC eligible for DSH payment cannot be determined at this time. Errors noted during this review will be corrected in amended Medicare and Medicaid cost reports, which will change costs incurred under these programs. A revised UCC schedule incorporating the results of this review along with corrected Medicare and Medicaid cost will result in corrected net UCC.

Field work was performed at the LSUMCS office in Shreveport, Louisiana.

FINDINGS AND RECOMMENDATIONS

Interim SFY 1998 DSH payments to LSUMCS were calculated in accordance with the State plan. However, we found that DSH payments to individual hospitals exceeded the UCC. The LSUMCS, therefore, needs to submit a revised UCC schedule to DHH, which incorporates our audit adjustments totaling \$4,467,789. Once these adjustments are made, the exact amount of Federal overpayments for DSH can be calculated and returned to the Federal Government. These adjustments consisted of the following items:

- The total net interim DSH payments that exceeded the total claimed UCC by \$5,131,834. This occurred because the interim payments were based on estimates and the amounts had not been adjusted to actual uncompensated costs at the time of our audit.
- A net understatement of claimed UCC totaling \$664,045 identified for SFY 1998 as follows:
 1. The cost reduction adjustment for private insurance cost was understated by \$484,750. This was due to (1) the use of insurance revenue rather than cost report data to calculate the adjustment, (2) the use of overall rather

than departmental ancillary cost information to calculate the revised cost based adjustment, and (3) calculation errors. As a result, UCC was overstated.

2. The cost reduction adjustment for physician supplemental salary cost was understated by \$363,377 due to (1) omitting one element of the cost and (2) entering an incorrect number for another element of the cost. As a result, UCC was overstated.
3. The cost reduction adjustment for non-physician anesthetist (NPA) cost was understated by \$353,349 because employee benefits were omitted from the calculation. As a result, UCC was overstated.
4. The cost reduction adjustment for Medicare cost was overstated by \$1,750,434 because capital cost was included twice. As a result, UCC was understated.
5. The cost reduction adjustment for provider-based physician cost was overstated by \$115,087 because the calculation was based on outdated compensation guidelines. As a result, UCC was understated.

NET INTERIM DISPROPORTIONATE SHARE HOSPITAL PAYMENTS EXCEEDED UNCOMPENSATED CARE COST

We reviewed the DSH payments made during SFY 1998 and found that the total net interim DSH payments exceeded the total claimed UCC by \$5,131,834. This occurred because the interim payments were based on estimates and the amounts had not been adjusted to actual uncompensated costs at the time of our audit.

UNDERSTATEMENT OF UNCOMPENSATED CARE COST

We found that the UCC for SFY 1998 was understated by a net of \$664,045. (See Appendix A for detailed listing of adjustments.) Findings are summarized as follows:

Private Insurance Cost Reduction Adjustment Understated by \$484,750

The private insurance cost reduction adjustment was understated by \$484,750. This was due to: (1) use of insurance revenue rather than cost report data to calculate the adjustment (\$226,410), (2) use of overall rather than departmental ancillary cost information to calculate the revised cost-based adjustment (\$193,478), and (3) calculation errors (\$64,862). As a result, UCC was overstated.

Use of Insurance Revenue to Compute Adjustment

The private insurance cost reduction adjustment was understated by \$226,410 because insurance revenue rather than cost report data was used to calculate the adjustment. The State plan requires that UCC be “...*net of...costs associated with patients who have insurance for services provided....*” Accordingly, the UCC schedule contained a private insurance cost adjustment to reduce UCC. However, this adjustment was based on SFY 1998 private insurance revenue of \$19,642,108. The LSUMCS used cost report data to prepare a revised cost-based adjustment totaling \$19,868,518, for an increase of \$226,410.

Use of Overall Rate to Compute Inpatient Ancillary Cost

The revised (cost-based) private insurance cost reduction adjustment was understated by an additional \$193,478. An element of the adjustment, inpatient ancillary cost, was calculated using an overall rate for all departments even though inpatient ancillary cost information by department was available. Applying this element of inpatient cost on a departmental basis increases ancillary cost by \$193,478 and results in a more accurate total cost per day for privately insured inpatients.

Calculation Errors

The revised (cost-based) private insurance cost reduction adjustment was understated by an additional \$64,862 due to calculation errors. The \$64,862 is comprised of \$84,606 in omitted psychiatric patient cost less \$19,744 of overstated outpatient cost.

The outpatient portion of private insurance cost is determined by applying the Medicaid outpatient cost to charge ratio to private insurance charges. After applying this ratio to overstated private insurance charges of \$44,128, the outpatient cost portion was determined to be overstated by \$19,744.

Physician Supplemental Salary Cost Reduction Adjustment Understated by \$363,377

The physician supplemental salary cost reduction adjustment was understated by \$363,377 because one element of cost was omitted and another was incorrectly entered on the WTB. As a result, UCC was overstated.

Salaried physicians on the LSUMCS payroll receive additional “salary supplements” based on billable services they render to patients. The LSUMCS bills patients and third party insurers on behalf of the physicians and payments received are recorded in the accounting system along with the supplemental salary payments. These supplemental payments are based on collections from billed services; therefore, they are removed from cost by a WTB adjustment.

The WTB adjustment is based on a visual review of the yearend Audit Trail detail account listing for a specific code assigned to salary supplement accounts. The identified accounts are summarized by department/cost center on the WTB. However, one account totaling \$369,377 was omitted and another account was overstated by \$6,000 due to entering an incorrect figure on the WTB. The result was a net understatement of \$363,377.

Non-Physician Anesthetist Cost Reduction Adjustment Understated by \$353,349

The NPA cost reduction adjustment was understated by \$353,349 because employee benefits were not included in the calculation. As a result, UCC was overstated.

The NPA employees provide patient services billable under Medicare Part B. Therefore, the cost of these employees is removed in an adjustment on the cost report. However, the NPA cost reduction adjustment represented only salary cost and did not include the cost of associated employee benefits. The cost of NPA benefits totaling \$353,349 was calculated by applying the ratio of NPA employee salary cost to total departmental salary cost.

Medicare Cost Reduction Adjustment Overstated by \$1,750,434

The Medicare cost reduction adjustment was overstated by \$1,750,434 because capital cost was included twice. As a result, UCC was understated.

The State plan requires that UCC be “...*net of Medicare costs*....” Accordingly, the UCC schedule contained a Medicare cost reduction adjustment of \$31,185,140, based on cost report data. In calculating the adjustment, capital cost of \$1,750,434 was included as a separate element. However, the same capital cost was also included in inpatient cost, another element of the calculation.

Provider-based Physician Cost Reduction Adjustment Overstated by \$115,087

The provider-based physician cost reduction adjustment was overstated by \$115,087 because it was based on outdated compensation guidelines. As a result, UCC was understated.

The cost report contained an adjustment for provider-based physician cost. The adjustment removed excess physician compensation cost per the Reasonable Compensation Equivalent (RCE) guidelines. The RCE guidelines establish physician salary levels by specialty and geographic location. However, the adjustment was calculated using outdated RCE guidelines.

Recalculation of the provider-based physician cost reduction adjustment according to the most current 1997 RCE guidelines resulted in an overstatement of \$115,087.

RECOMMENDATIONS

We recommended that LSUMCS:

- (1) Submit a corrected UCC schedule to DHH which incorporates our audit adjustments totaling \$4,467,789 to ensure that: (a) the appropriate financial adjustments are made to the DSH program; and (b) the exact amount of the Federal share of overpayments are calculated and returned to the Federal Government. (See Appendix A.)
- (2) Review UCC adjustments in prior and subsequent years where errors were identified for SFY 1998. Make necessary adjustments to the cost reports and UCC schedules.
- (3) Implement controls to assure the UCC schedules are prepared accurately in the future.

Auditee's Comments and Office of Inspector General's Response

The LSUMCS agreed with the findings and recommendations and agreed to implement the recommendations for financial adjustments contained in our report. The LSUMCS also stated that a corrected UCC schedule was completed and submitted to the intermediary and DHH and the funds have been repaid. Although LSUMCS indicated that it made the proper financial adjustments, it still needs to implement the recommendation pertaining to implementing controls to assure that adjustments to the UCC schedules are prepared accurately in the future.

**Summary of OIG Adjustments
LSUMCS
SFY 1998**

Interim DSH payments		\$106,454,952
UCC claimed		<u>101,323,118</u>
Interim DSH overpayment		\$5,131,834
Cost adjustment errors:		
Private insurance	\$484,750	
Physician supplemental salaries	363,377	
Non-physician anesthetist	353,349	
Medicare cost	(1,750,434)	
Provider-based physician	<u>(115,087)</u>	
Net cost adjustment errors		<u>(664,045)</u>
Net adjustment to UCC		<u>\$4,467,789¹</u>

¹Actual amount to be determined after adjustments are posted to cost reports and a revised UCC schedule is prepared.

**LOUISIANA STATE UNIVERSITY
MEDICAL CENTER**

1501 Kings Highway
Post Office Box 33932
Shreveport, LA 71130-3932
Telephone: (318) 675-7655
FAX: (318) 675-7675



LSUMC

Administration and Finance

April 27, 2001

Mr. Gordon L. Sato
Regional Inspector General
for Audit Services
Office of Inspector General
1100 Commerce, Room 6B6
Dallas, Texas 75242

Dear Mr. Sato:

This is in response to the audit of the Louisiana State University Health Sciences Center-Shreveport disproportionate share hospital program. Following is a list of the findings with my responses:

1. NET INTERIM DSH PAYMENTS EXCEEDED UCC

We reviewed the DSH payments made during SFY 1998 and found that the total net interim DSH payments exceeded the total claimed UCC by \$5,131,834. This occurred because the interim payments were based on estimates and the amounts had not been adjusted to actual uncompensated cost at the time of our audit.

We concur with the OIG finding.

A corrected UCC schedule has been completed and submitted to TriSpan (the intermediary) and DHH. This has been settled with DHH and funds have been repaid. I realize that the audit was about UCC but there was also a \$7,453,276 Cost Report adjustment that was due LSUHSC-S which more than offset the amount owed for UCC.

2. UNDERSTATEMENT OF UCC

We found that the UCC for SFY 1998 was understated by a net of \$664,045.

We concur with the OIG finding.

This adjustment was reflected in the corrected UCC schedule submitted to DHH. The private insurance costs are now

School of Allied Health Professions
School of Dentistry

School of Graduate Studies
School of Medicine in New Orleans

School of Medicine in Shreveport
School of Nursing

Mr. Gordon L. Sato
April 27, 2001
Page 2

calculated through the Cost Report.

3. Physician Supplemental Salary Cost Reduction Adjustment Understated by \$363,377

The physician supplemental salary cost reduction adjustment was understated by \$363,377 because one element of cost was omitted and another was incorrectly entered by the WTB. As a result, UCC was overstated.

We concur with the OIG finding.

This was an error which has been corrected and disclosed to DHH via the corrected UCC schedule.

4. NPA Cost Reduction Adjustment Understated by \$353,349

The NPA cost reduction adjustment was understated by \$353,349 because employee benefits were not included in the calculation. As a result, UCC was overstated.

We concur with the OIG finding.

This adjustment has been made and disclosed to DHH via the corrected UCC schedule.

5. Medicare Cost Reduction Adjustment Overstated by \$1,750,434

The Medicare cost reduction adjustment was overstated by \$1,750,434 because capital cost was included twice. As a result, UCC was understated.

We concur with the OIG finding.

This adjustment has been reflected in the corrected UCC schedule that was provided to DHH.

6. Provider-based Physician Cost Reduction Adjustment Overstated by \$115,087

The provider-based physician cost reduction adjustment was overstated by \$115,087 because it was based on outdated compensation guidelines. As a result, UCC was understated.

We concur with the OIG finding.

This adjustment has been reflected in the corrected UCC schedule that has been provided to UCC.

Mr. Gordon L. Sato
April 27, 2001
Page 3

If you have any questions or need further information,
please contact me.

Sincerely,



Harold White
Vice Chancellor
for Business and Reimbursements